



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0065	Title:	Revise trust land funding laws
Primary Sponsor:	Hawks, Bob	Status:	As Amended in House Committee

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	(\$74,752)	(\$75,779)	(\$78,424)	(\$81,267)
Common School Permanent Fund	(\$14,672)	(\$14,742)	(\$15,111)	(\$15,489)
Public Buildings	(\$204,010)	(\$205,085)	(\$210,213)	(\$215,463)
Other	\$0	\$0	\$0	\$0
Revenue:				
ComSchool Guarantee Acct (02)	\$278,762	\$280,864	\$288,637	\$296,735
Public Building (05)	(\$204,010)	(\$205,085)	(\$210,213)	(\$215,468)
University System (71)	(\$76,175)	(\$76,499)	(\$78,414)	(\$80,374)
State Reform School (02)	(\$5,951)	(\$5,951)	(\$6,100)	(\$6,252)
School for the Deaf and Blind (02)	(\$7,260)	(\$7,260)	(\$7,442)	(\$7,628)
Veteran's Home (02)	(\$38)	(\$47)	(\$48)	(\$49)
Net Impact-General Fund Balance	<u>\$74,752</u>	<u>\$75,779</u>	<u>\$78,424</u>	<u>\$81,267</u>

Description of fiscal impact:

SB 65 changes the statutory limits for the funding of administrative costs for the Trust Land Management Division of the Department of Natural Resources and Conservation (DNRC) to 25% of distributable revenues (approximately \$15 million) and consolidates numerous funding sources: Resource Development, Timber Sale, Commercial Leasing, Recreational Use, and the Land Bank into the Trust Administration Account (TAC). SB 65 implements 2008 audit recommendations aimed at more accurately assessing individual endowments for their management costs incurred in a given year. Under present law and accounting practices, the Common Schools are currently bearing a disproportionate share of administrative expenses. SB 65 would have a net benefit to the General Fund of approximately \$75,000 on an annual basis, while reducing a like amount from the distributable revenue for the other trusts.

FISCAL ANALYSIS

Assumptions:

Department of Natural Resource and Development (DNRC)

1. SB 65 does not change spending authority or costs for DNRC.
2. During FY 2007 and FY 2008, the division analyzed expenditures for nine trust beneficiaries (Common Schools, University of Montana, Montana Tech, State Normal School, State Reform School, School for the Deaf and Blind, Montana State University – 2nd Grant, Veterans Home, and Public Buildings) based on information provided by the four programs – agriculture and grazing, minerals, forest management, and real estate.
3. The administrative costs were allocated by trust based on work completed in FY 2008. Several factors, including type of activity, acreage managed/treated, and source of revenue generated, all of which can fluctuate on an annual basis, were used to allocate costs by trust in FY 2008. For fiscal note purposes, it is assumed that administrative costs by trust for FY 2010 through FY 2013 will reflect similar cost allocation percentages based on work completed in FY 2008.
4. SB 65 consolidates Trust Land Management Division funding sources from six accounts into one state special revenue account.
5. Section 24 of the bill transfers unencumbered fund balances remaining at the end of the FY 2009 from four state special revenue accounts (Resource Development, Recreational Use, Timber Sale, and Commercial Leasing) to the earnings reserve account. The table below shows projected 2010 fund balances derived from the MBARS statewide fund balance report. Note that Resource Development account balance (fund 2450) has been reduced by \$726,000 due to an approved long-range building budget adjustment. This adjustment is not seen in the fiscal impact table since the sending and receiving funds are all DNRC state special revenue funds.

	Resource Development	Recreational Use	Timber Sale	Commercial Lease
Fund Balance	2450	2241	2280	2836
FYE 2009	\$769,251	\$51,294	\$190,391	\$100,907
Transferred to a new state special Earnings Reserve Account				

6. An inflation factor of 2.5% has been applied to administrative costs for FY 2012 through FY 2013.
7. Under current law, the department anticipates making a change in cost accounting methodology as of the beginning of FY 2010 to the method more closely tied to work completed on a specific trust in a given year. If SB 65 fails to pass, the cost impacts displayed below would be addressed through one of the following three scenarios: 1) Common Schools continues to subsidize management expenses of the other trusts; 2) the other trusts borrow from the General Fund and repay the funds at a future date; or 3) the General Fund assumes those additional management costs that exceed the statutory spending caps. All three scenarios have a similar effect on the General Fund.
8. SB 65 eliminates the spending caps on the Resource Development Account and the Trust Administration Account and maintains only the Trust Administration Account (TAC). The impacts of removing these caps are shown in the table below. The Montana State University – Morrill trust beneficiary was excluded from this fiscal note, because administrative costs for this trust are paid by the general fund and not capped by statute.

Trust	FY 2010 Change in Admin Cost Allocations	FY 2011 Change in Admin Cost Allocations	FY 2012 Change in Admin Cost Allocations	FY 2013 Change in Admin Cost Allocations
Common Schools	(293,434)	(294,842)	(302,217)	(309,771)
University of Montana	4,064	4,064	4,167	4,270
Montana Tech	11,403	11,539	11,828	12,123
State Normal School	36,926	37,114	38,042	38,994
State Reform School	5,951	5,951	6,100	6,252
School for Deaf & Blind	7,260	7,260	7,442	7,628
MSU - 2nd Grant	23,782	23,782	24,377	24,987
Veterans Home	38	47	48	49
Public Buildings	204,010	205,085	210,213	215,468
Total	-	-	-	-
Allocation of Common School Share				
Common Schools	(293,434)	(294,842)	(302,217)	(309,771)
Guarantee Account	(278,762)	(280,100)	(287,106)	(294,282)
Permanent Fund	(14,672)	(14,742)	(15,111)	(15,489)

9. The decreased allocation in cost to the permanent fund will appear on the accounting records as a reduction in the transfer from the trust fund earnings, or as a reduced expenditure, rather than a revenue increase. The increase in amount of revenue retained in the permanent fund is assumed to be invested in the trust fund bond pool, which is forecast to yield 5.478 % in FY 2010 and 5.748% in FY 2011 through FY 2013. Only one iteration of interest revenue and distribution is calculated for fiscal note purposes.

Revenue Source	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Changes in Cost Allocation - assumption 8	\$278,762	\$280,100	\$287,106	\$294,282
Additional Interest Revenue - assumption 9	\$0	\$764	\$1,531	\$2,453
Total Change to Guarantee Account	\$278,762	\$280,864	\$288,637	\$296,735

10. The Table below shows the change in the distributable portion of common school revenue due to changes in cost allocation and the additional distributable revenue. The sum of these two yields the total change in distributable revenue to the Common School Guarantee Account.

Department of Administration

11. For fiscal note purposes it is assumed that the shortfall in the Public Buildings revenue would be replaced with general fund to the extent necessary to meet general obligation debt service and current required appropriations. Current appropriations from this account include debt service statutory appropriations and long-range building appropriations in HB 5.

Office of Public Administration

12. The decrease of administration costs for common school trust sources increases revenue to the guarantee account for school BASE aid. The guarantee account is the first funding of school BASE aid. The increase in guarantee account revenue available from this bill will reduce general fund expenditures by equivalent amounts.

<u>Fiscal Impact:</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Office of Public Instruction				
<u>Funding of Expenditures:</u>				
General Fund (01)	\$ (278,762)	\$ (280,864)	\$ (288,637)	\$ (296,735)
ComSchool Guarantee Acct (02)	\$ 278,762	\$ 280,864	\$ 288,637	\$ 296,735
TOTAL Funding of Exp.	\$ -	\$ -	\$ -	\$ -

Department of Administration

<u>Funding of Expenditures:</u>				
General Fund (01)	\$ 204,010	\$ 205,085	\$ 210,213	\$ 215,468
Public Buildings (05)	\$ (204,010)	\$ (205,085)	\$ (210,213)	\$ (215,468)
TOTAL Funding of Exp.	\$ -	\$ -	\$ -	\$ -

Department of Natural Resource and Conservation

<u>Expenditures:</u>				
Transfers	\$ (14,672)	\$ (14,742)	\$ (15,111)	\$ (15,489)

<u>Funding of Expenditures:</u>				
ComSchool Permanent Fund (09)	\$ (14,672)	\$ (14,742)	\$ (15,111)	\$ (15,489)

Revenues:

ComSchool Guarantee Acct (02)	\$ 278,762	\$ 280,864	\$ 288,637	\$ 296,735
DNRC Combined Operating (02)	\$ -	\$ -	\$ -	\$ -
Public Buildings (05)	\$ (204,010)	\$ (205,085)	\$ (210,213)	\$ (215,468)
University System (71)	\$ (76,175)	\$ (76,499)	\$ (78,414)	\$ (80,374)
State Reform School (02)	\$ (5,951)	\$ (5,951)	\$ (6,100)	\$ (6,252)
School for the Deaf and Blind (02)	\$ (7,260)	\$ (7,260)	\$ (7,442)	\$ (7,628)
Veteran Home's (02)	\$ (38)	\$ (47)	\$ (48)	\$ (49)
TOTAL Revenues	\$ (14,672)	\$ (13,978)	\$ (13,580)	\$ (13,036)

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$ 74,752	\$ 75,779	\$ 78,424	\$ 81,267
ComSchool Guarantee Acct (02)	\$ -	\$ -	\$ -	\$ -
DNRC Combined Operating (02)	\$ -	\$ -	\$ -	\$ -
ComSchool Permanent Fund (09)	\$ 14,672	\$ 14,742	\$ 15,111	\$ 15,489
Public Buildings (05)	\$ -	\$ -	\$ -	\$ -
University System (71)	\$ (76,175)	\$ (76,499)	\$ (78,414)	\$ (80,374)
State Reform School (02)	\$ (5,951)	\$ (5,951)	\$ (6,100)	\$ (6,252)
School for the Deaf and Blind (02)	\$ (7,260)	\$ (7,260)	\$ (7,442)	\$ (7,628)
Veteran Home's (02)	\$ (38)	\$ (47)	\$ (48)	\$ (49)

Long-Term Impacts:

1. New Section 31 prescribes an effective date of July 1, 2013 for Sections 9 and 11 of the bill. Section 11 of the bill sunsets the use of mineral royalties as a funding mechanism to pay the administrative costs associated with managing state trust lands by FY 2014. Starting in July 2013, distributable revenues, which are defined in Section 7(4) of the bill, would be the primary funding mechanism to pay the administrative costs associated with managing state trust lands.
2. In FY 2008, the Trust Administration Account used approximately \$3.8 million for administration purposes, and most of that revenue was from mineral royalty revenue to fund administration. If SB 65 passes, then the transfer to the Guarantee Account revenue will be reduced by 95% of the expenditures funded with mineral royalty revenue and the general fund expenditures will increase by the same amount beginning in FY 2014.

Technical Note

3. This bill does not address the shortage in allowable non-budgeted transfer of general fund to cover the administrative costs of the Montana State University – Morrill trust. A supplemental transfer of general fund would be required under this bill the same as current law.

Sponsor's Initials

Date

Budget Director's Initials

Date